Petro Welt
Technologies

Condensed consolidated interim financial statements as of September 30, 2020

MANAGEMENT REPORT Q1–Q3 2020

EXTERNAL ENVIRONMENT

GLOBAL SUPPLY AND DEMAND ON THE OIL MARKET

Global oil prices trended downward at the end of the third quarter of 2020, weighed on by weak demand and gradually rising global supply. The stagnating demand was primarily driven by the ongoing global health crisis, with a second wave of Covid-19 cases slowing economic growth. In addition, the interruption of talks regarding a U.S. economic stimulus package, stalling growth in China's crude imports, geopolitical risks, and ongoing U.S.-China trade tensions also dragged on prices. According to the U.S. Energy Information Administration (EIA), the rate of growth in global oil demand slowed in August and September 2020 as compared with the initial recovery in both June and July. During these two months, the global demand for oil rose by 6.0 million barrels per day (mb/d) and 3.1 mb/d, respectively, in contrast to the EIA's estimates that in August and September demand inched up by a mere 0.6 mb/d and 1.3 mb/d, respectively. According to OPEC, the world's demand for oil was 90.99 mb/d in the year's third quarter, down 9.66 mb/d year on year.

Global oil supplies decreased by 0.6 mb/d to 91.1 mb/d in September compared with the previous month, falling 8.7 mb/d year on year, as OPEC+ countries' compliance with their agreement improved. In addition, both maintenance and unplanned outages curbed output in Brazil, Canada, and the North Sea. Of greater long-term significance to the market, however, is the potential for a sustained increase in production from Libya. There have been several false dawns in recent years, but the latest ceasefire has already seen output pick up. As it is not subject to the OPEC+ agreement, Libya is free to produce at whatever level it chooses.

During early September's heightened volatility, Brent crude oil prices fell to less than USD 40 per barrel (/b) and then began to stabilize from mid-September through October 1, trading at an average price of USD 42/b.

RUSSIA

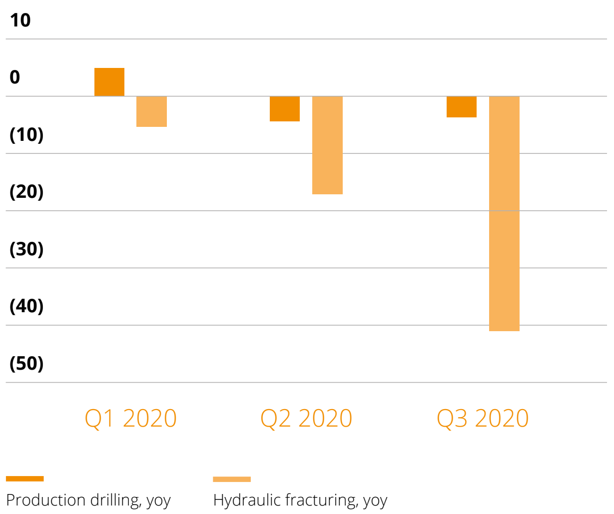
While Russia's gross domestic product (GDP) and industrial output were subject to limited negative dynamics from January through September 2020, the country's oil production was affected more severely due to both the OPEC+ restrictions and the decline in oil prices. According to the estimates of the Federal State Statistics Service (Rosstat), Russia's GDP fell by about 3.1% and industrial production by 2.9% in the first nine months of 2020. Weak consumption caused inflation to increase by only 3% year on year.

According to the Russian Energy Ministry's oil and gas analytics unit, CDU TEK, the country's oil production fell by 7.8% in the year's first nine months compared with the same period of the previous year. While two of Petro Welt's core clients, LUKOIL and RussNeft, cut their oil production volumes by 9.6% and 9.7%, respectively, Rosneft, the large state-owned entity, reported a smaller decrease by 7.5%.

Hydraulic fracturing as both the most important and one of the most expensive instruments used to accelerate the production of oil came under huge pressure. According to CDU TEK's statistics, this segment's physical output dropped by some 22%. Drilling activities were more resistant owing to both their inertial character and the need to maintain long-term oil reserves. Total drilled meterage in

Russia thus declined by only 1.3% in the first nine months of 2020 compared with the same period of 2019. This downward trend accelerated during the year's third quarter and culminated in a year-on-year reduction of 3.6%.

Rate of Growth of Key Segments of the Russian OFS Market (in %)



KAZAKHSTAN

According to Kazakhstan's Bureau of National Statistics, from January to September 2020 the country's total industrial output remained stable year on year whereas oil production followed the global trend and declined by 3.5%. It is very difficult at this time to assess the physical volume of work dedicated to fracturing because there has been a radical change in the structure of operations. Market prices fell between 10% and 15%.

ROMANIA

Romania's onshore oil and gas market is a mature one. It entails exploitation of over 400 deposits, most of them small and fragmented, that requires the use of specialized technologies. At 13,000 wells, Romania boasts the largest number of active wells in Europe. Production suffers from a natural decline of 10%. Yearly investments of EUR 1 billion are needed to maintain sufficient output levels. A few production projects were delayed in the past few months due to current pricing levels. Activity is expected to rebound in 2021, however, with new exploration and production companies entering the market.

PERFORMANCE OF THE PEWETE GROUP

Following its positive performance in the first six months of 2020, Group revenue as expressed in euros dropped substantially during the year's third quarter by 34.8% year on year. As a result, Group revenue for the first nine months of 2020 declined by 5.2% overall, driven mainly by a dramatic reduction in the Russian OFS market, especially in the fracturing segment.

Thanks to its continued focus on cost optimization, the Group not only reduced administrative expenses by 2.6%, from EUR 16.4 million in the first three quarters of 2019 to EUR 16.0 million in the first three quarters of 2020, but also lowered both direct production costs and maintenance costs. Due to the expense of operational anti-crisis measures, direct costs in euros were cut by 7.9%. Expenses associated with raw materials expressed in euros declined by 2.5%. The Drilling and Sidetracking segment was the main contributor to the improvement in the Group's key figures. The segment's gross profit for the reporting period jumped by 26.8% to EUR 20.3 million, while its operating profit doubled (+77.4%) to EUR 15.1 million. As a result, Group EBIT rose by 21.5% to EUR 17.9 million in the same period.

The revaluation of hard currency assets in Russia caused net financial income to soar by 127.3% in the third quarter, increasing by 28.1% overall, from EUR 3.7 million in the first nine months of 2019 to EUR 4.7 million in the first nine months of 2020.

The profit before tax thus climbed by 22.8% from EUR 18.4 million in the first three quarters of 2019 to EUR 22.6 million in the first three quarters of 2020.

In the year's first nine months, Group EBITDA declined by 6.4% to EUR 40.9 million year on year. At 19.8%, the EBITDA margin for the reporting period was stable compared with 20.0% in 2019.

Based on the profit accumulated during the first six months of 2020, all profit indicators (except EBITDA) for the first three quarters of 2020 exceeded those for the same period of the previous year.

At the same time, financial estimates for the fourth quarter are weak owing to further reductions in client orders which, in turn, lowers our forecast of the expected revenue for fiscal year 2020 to between EUR 255 and EUR 260 million, with a potential EBITDA margin of about 16%.

BALANCE SHEET

Total assets fell by 21.1% to EUR 357.1 million as of September 30, 2020, down from EUR 452.7 million as of December 31, 2019. This development was driven primarily by reductions in property, plant and equipment; inventories; trade receivables; and cash and cash equivalents.

In the reporting period, the Group saw its managerial cash position decline by 22.2% from EUR 144.0 million to EUR 112.0 million on lower revenue and an extended trade receivables cycle that put pressure on net operating cash flow.

Equity fell by 28.1% to EUR 182.8 million by the end of the reporting period. As a result, the equity ratio decreased to 51.2% as of September 30, 2020, down from 56.2% as of December 31, 2019.

CASH FLOW

While the cash flow from operating activities in the year's third quarter dropped by 46.1% year on year, the Group was able to maintain its positive pace despite clients' worsening payment behavior and the need to grant extended payment terms. Total cash, which includes financing and investing activities, turned negative due to the necessity to maintain CapEx in Russia and acquire equipment for our Omani entity.

CONDENSED CONSOLIDATED INCOME STATEMENT FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2020

TEUR	Q3 2020	Q3 2019	Q3 YTD 2020	Q3 YTD 2019	Q3 2020 vs Q3 2019	Q3 2020 YTD vs Q3 2019 YTD
Revenue	53,054	81,407	207,046	218,355	(34.8%)	(5.2%)
Cost of sales	(43,866)	(65,301)	(171,272)	(184,756)	(32.8%)	(7.3%)
Gross profit	**9,188**	**16,106**	**35,774**	**33,599**	**(43.0%)**	**6.5%**
Gross profit margin in %	**17.3%**	**19.8%**	**17.3%**	**15.4%**		
Administrative expenses	(4,231)	(4,924)	(16,015)	(16,439)	(14.1%)	(2.6%)
Selling expenses	(267)	(466)	(1,239)	(1,542)	(42.7%)	(19.6%)
Other operating income	1,878	360	4,251	1,252	421.7%	239.5%
Other operating expenses	(1,669)	(468)	(4,842)	(2,110)	256.6%	129.5%
Operating result (EBIT)	**4,899**	**10,608**	**17,929**	**14,760**	**(53.8%)**	**21.5%**
EBIT margin in %	**9.2%**	**13.0%**	**8.7%**	**6.8%**		
EBITDA	**11,842**	**20,260**	**40,907**	**43,686**	**(41.5%)**	**(6.4%)**
EBITDA margin in %	**22.3%**	**24.9%**	**19.8%**	**20.0%**		
Finance income	935	2,197	3,876	7,111	(57.4%)	(45.5%)
Finance costs	(905)	(945)	(2,754)	(2,888)	(4.2%)	(4.6%)
Foreign currency exchange income/(losses)	3,188	164	3,588	(545)	1,843.9%	(758.3%)
Net finance (costs)/income	**3,218**	**1,416**	**4,710**	**3,678**	**127.3%**	**28.1%**
Profit before income tax	**8,117**	**12,024**	**22,639**	**18,438**	**(32.5%)**	**22.8%**
PBT margin in %	**15.3%**	**14.8%**	**10.9%**	**8.4%**		
Income tax expense	(1,701)	(2,891)	(7,888)	(5,800)	(41.2%)	36.0%
Profit after tax from continuing operations	**6,416**	**9,133**	**14,751**	**12,638**	**(29.7%)**	**16.7%**
Profit	**6,416**	**9,133**	**14,751**	**12,638**	**(29.7%)**	**16.7%**
Earnings per share in EUR	0.13	0.19	0.30	0.26		
Diluted earnings per share in EUR	0.13	0.19	0.30	0.26		

EXCERPTS FROM THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF SEPTEMBER 30, 2020

TEUR	09/30/2020	12/31/2019
Assets		
Non-current assets, including	**130,206**	**166,897**
Property, plant and equipment	125,917	161,107
Current assets, including	**226,884**	**285,844**
Trade receivables	61,768	77,049
Contract assets	12,073	14,556
Bank deposits	4,282	5,350
Cash and cash equivalents	107,678	138,610
Total assets	**357,090**	**452,741**
Equity and liabilities		
Equity	**182,839**	**254,272**
Non-current liabilities, including	**125,664**	**125,239**
Non-current financial liabilities to affiliated parties	122,040	119,298
Current liabilities, including	**48,587**	**73,230**
Trade payables	29,509	44,344
Total equity and liabilities	**357,090**	**452,741**
Net assets	182,839	254,272
Equity ratio	51.2%	56.2%

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